



# Indonesia

## Compliance Risk Profile

Last Updated: 9/2019

### Summary

Indonesia is the 25<sup>th</sup> largest exporter and 29<sup>th</sup> largest importer in the world.<sup>1</sup> It is strategically located between the Pacific Ocean and Indian Ocean and between Asia and Australia. The Strait of Malacca runs between Indonesia, Malaysia, and Singapore. It is estimated that almost half of the world's total annual seaborne trade passes through the Strait of Malacca.

From a compliance risk perspective Indonesia has made some improvements in the anti-money laundering and corruption areas in recent years. However, corruption remains a significant risk area for Indonesia due to its relatively inefficient government, lack of law enforcement in many areas of the country, and weakness in the overall rule of law. The World Economic Forum's (WEF) Global Competitiveness Report<sup>2</sup> ranks Indonesia at 36 out of 137 countries analyzed for overall economic competitiveness but four of the top six problematic factors for doing business in Indonesia were listed as corruption (1<sup>st</sup>), inefficient bureaucracy (2<sup>nd</sup>), policy instability (5<sup>th</sup>), and Government instability/coups (6<sup>th</sup>).<sup>2</sup>

Multi-national companies operating in Indonesia should have strong local internal controls in-place as well as periodic monitoring and independent auditing to ensure compliance with Customs and anti-corruption laws.

### General Country Information

Indonesia has a total population of 262 million<sup>1</sup> with a demographic composition of 40.2% Javanese, 15.5% Sundanese, 3.65% Batak, 3% Madurese, and 37.7% Other<sup>1</sup>. Most of the population lives on Java island with the rest of the population spread across more than 13 main islands (13,000 islands in total). Indonesia has twelve cities with more than 1,000,000 inhabitants with Jakarta and Surabaya being the largest. The official language is Indonesian, however there is an estimated 700 languages used in the country.<sup>1</sup> Indonesia has a GDP of \$1,015.4 Billion USD (\$3,876 USD per capita)<sup>2</sup>, and it is the world's largest archipelagic state encompassing about 2,000,000 sq. km of land.<sup>1</sup>

### Governance and Regulatory

#### Legislation

Corporate governance for limited liability companies in Indonesia is primarily governed by Law No. 40 of 2007, Law No. 25 of 2007 and for public companies Law No. 8 of 1995 on Capital Market and their implementing regulations.<sup>3</sup>

#### Environment

The 2019 World Bank's Ease of Doing Business<sup>2</sup> Report (EDB Report) ranks Indonesia overall 73 out of 190 countries analyzed for regulations that are conducive in fostering business activities and those that constrain it.

The World Bank's 2017 Worldwide Governance Indicator (WGI)<sup>4</sup> for Regulatory Quality (RQ), with -2.5 being weak and +2.5

being strong governance performance, gave Indonesia a score of -0.11 which resulted in a ranking of 99 out of 203 countries analyzed. This represented a slight improvement from the 2008 score of -0.35 and a ranking of 117 out of 201 countries that were analyzed. The RQ indicator *“Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development”*<sup>4</sup>.

The 2017 WGI Rule of Law (RL) indicator gave Indonesia a score of -0.35 which resulted in a ranking of 124 out of 209 countries analyzed. This represented an improvement from the 2008 score of -0.65 and a ranking of 144 out of 209 countries. The RL indicator *“Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence”*<sup>4</sup>.

The 2017 WGI Government Effectiveness (GE) indicator gave Indonesia a score of 0.04 which resulted in a ranking of 95 (tied with 5 countries) out of 209 countries analyzed. This represented an improvement in performance from the 2008 score of -0.24 and ranking of 112 out of 207 countries. The GE indicator *“Reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies”*<sup>4</sup>.

### **Enforcement**

There have been no recent significant governance enforcement cases in Indonesia.

GCSG’s Compliance Risk Index (CRI) analyzed eight independent factors to score the **governance and regulatory area compliance risk**<sup>5</sup> level for Indonesia as **Moderate**.

## **Bribery and Corruption**

### **Legislation**

The major legislation regulating corruption within Indonesia is found within the Criminal Code (Law No. 8/1981), Law No. 31/1999, and Law No. 20/2001.<sup>6</sup> The police, prosecutors and the KPK<sup>7</sup> have the authority to investigate corruption. The prohibition on bribery is focused on public officials and any person in a position of authority over a public interest matter. Potential penalties apply to both individuals and corporations.

### **Environment**

Transparency International’s 2018 Corruption Perceptions Index<sup>8</sup>, with zero being the most corrupt and 100 being the least corrupt, gave Indonesia a score of 38 which resulted in a ranking of 89 out of 180 countries surveyed. Trace International’s 2018 Bribery Risk Matrix<sup>8</sup>, with 100 being the most corrupt and zero being the least corrupt, gave Indonesia a score of 51 which resulted in a ranking of 92 out of 200 countries surveyed. The 2017 WGI Control of Corruption indicator<sup>4</sup>, with -2.5 being weak and +2.5 being strong governance performance, gave Indonesia a score of -0.25 which resulted in a ranking of 109 out of 209 countries. While not a good score, the improvement from 2008 to 2017 was significant (2008 score of -0.59 and a ranking of 137 out of 209 countries). The WGI Control of Corruption indicator *“Reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests”*<sup>4</sup>.

The 2016 WEF Enabling Trade Report<sup>10</sup> (WEF Trade Report) listed corruption at the border (1<sup>st</sup>) as the most problematic factor for importing into Indonesia.

### **Enforcement**

Over the years there have been some high-profile bribery cases in Indonesia including the 2013 bribery case against Akil Mochtar the former Chief Justice of the Indonesian Constitutional Court and the 2012 case against Ridwan Sanjaya a former Energy and Mineral Resources Ministry official.

GCSG’s Compliance Risk Index (CRI) analyzed four independent factors to score the **bribery and corruption area compliance risk**<sup>5</sup> level for Indonesia as **Moderate**.

## **Trade**

### **Legislation**

The Indonesia import and export standards are primarily set out under Law No. 10/1995, No. 17/2006<sup>9</sup>, No. 16/2012, No. 7/2014, No. 10/1997, No. 9/2008 and No. 15/2003. The Directorate General of Customs and Excise (part of the Ministry of Finance) is primarily responsible for regulating customs clearance in Indonesia.<sup>9</sup> Indonesia is a member of the WTO (1995) and ASEAN.<sup>9</sup>

## Environment

**Facilitation.** The WEF Trade Report<sup>10</sup> gave Indonesia an overall score of 4.30, with 6.0 being the best and 2.9 being the worst scoring country in the index. This ranks Indonesia 70<sup>th</sup> out of 136 countries that were evaluated for trade facilitation performance. The 2<sup>nd</sup> and 3<sup>rd</sup> most problematic factors for importing, noted in the WEF Trade Report, included tariffs and non-tariff barriers as well as the high cost or delays caused by domestic transportation. High cost or delays caused by domestic transportation, technical requirements and standards abroad, and identifying potential markets and buyers were the top three most problematic factors for exporting from Indonesia. The EDB Report<sup>2</sup> ranks Indonesia 116 out of 190 countries for “trading across borders” which includes evaluating the time and cost to export and import.

In 2017, Indonesia exported \$188B and imported \$153B.<sup>1</sup> Its top export destinations were China, USA, Japan, India, and Singapore and its top exports were coal briquettes, palm oil, petroleum gas, rubber, and crude petroleum.<sup>1</sup> Indonesia’s fourteen (14) major maritime ports are Balikpapan, Banjarmasin, Batu Ampar, Belawan, Cirebon, Dumai, Gresik, Jakarta, Makassar, Surabaya, Tanjung Emas, Tanjung Intan, Tanjung Uban, and Teluk Bayur.<sup>11</sup>

**Compliance.** While the United States and European Union have sanctions in place against individual persons and organizations throughout the world, neither has comprehensive country-level economic sanctions programs in place against Indonesia.<sup>12</sup> However, a U.S. GAO report<sup>13</sup> indicated Indonesia to be a country to watch as a transshipment hub<sup>14</sup> with a potential for higher risk of illicit transshipment. Indonesia is a party to the NPT, Biological Weapons Convention (BWC) and Chemical Weapons Convention (CWC) but is not a member of the multi-lateral export control regimes Nuclear Suppliers Group (NSG), Wassenaar Arrangement, Australia Group, or Missile Technology Control Regime (MTCR).<sup>15</sup>

## Enforcement

There have been no recent significant trade enforcement cases in Indonesia.

GCSG’s Compliance Risk Index (CRI) analyzed five independent factors to score the **trade compliance area risk**<sup>5</sup> level for Indonesia as **Moderate**.

## Financial

### Legislation

In 2017 Bank Sentral Republik Indonesia (Bank Indonesia) issued new regulatory requirements to further limit money laundering and terrorist financing and the Financial Services Authority also introduced a new regulation to restrict money laundering and terrorist financing.<sup>16</sup> Indonesia is a member of the Asia / Pacific Group on Money Laundering (APG)<sup>17</sup>.

### Environment

**Access to Finance.** The WEF Trade Report<sup>10</sup> gave Indonesia a score of 4.6 (1-7 best) and a ranking of 31 out of 136 economies for access to finance.

**Financial Secrecy and Money-Laundering.** The latest Financial Secrecy Index (FSI)<sup>18</sup> gave Indonesia an overall score of 188.79, with 1,590 being the most secret and 16 being the least secret country in the index. This FSI score indicates a low concern for financial secrecy. The 2019 International Narcotics Control Strategy Report<sup>19</sup> (NCSR) lists Indonesia as a country of concern for money laundering activities. The NCSR report on Indonesia said “Widely regarded as the financial capital of Southeast Asia, Indonesia remains vulnerable to money laundering due to gaps in financial system legislation and regulation, a cash-based economy, weak rule of law, and partially ineffective law enforcement institutions...”

### Enforcement

Indonesia conducted an anti-money laundering risk assessment in 2015. For the period of January-September 2018, there were three (3) money laundering convictions in Indonesia.<sup>19</sup>

GCSG’s Compliance Risk Index (CRI) analyzed two independent factors to score the **financial area compliance risk**<sup>5</sup> level for Indonesia as **Moderate**.

## Country Risk Rating

GCSG’s Compliance Risk Index (CRI) analyzed 19 independent factors to score the **overall compliance risk**<sup>5</sup> for Indonesia at **6.23** (1-10 Highest). This score assigns an overall **Moderate** compliance risk level for multi-national businesses operating within and/or conducting cross-border trade with entities operating within Indonesia.

**Note:** GCSG’s third-party risk ranking tool (assesses risk at the entity level), and our due diligence reports can be used to further drill down on risks posed by your supply channel and sales channel third parties. Click [here](#) to learn more.

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